

Ms. Linda A. Holtzscheiter, Reimbursement Manager  
Mariner Post-Acute Network  
15415 Katy Freeway, Suite 800  
Houston, Texas 77094

Re: AC# 3-STG-J7 – GranCare South Carolina, Inc., St. George Health Care Center, Inc.

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Robert M. Kerr

Ms. Linda A. Holtzscheiter, Reimbursement Manager  
Mariner Post-Acute Network  
15415 Katy Freeway, Suite 800  
Houston, Texas 77094

Re: Draft Report - AC# 3-STG-J7 – GranCare South Carolina, Inc., St. George Health Care Center, Inc.

Dear Ms. Holtzscheiter:

The accompanying draft report has been prepared by our office. Please review the adjustments as presented.

If you have any questions concerning this report and would like a formal exit conference with the auditors, please write to Mr. Jay S. Von Kannel, CPA, regarding the establishment of a meeting date. Your correspondence should include the above referenced control number. Your request for a conference must be made within ten (10) calendar days of your receipt of this report, and the conference must be held within twenty (20) calendar days of your receipt of this report. Any additional documentation in support of allowable cost must be received by our office no later than twenty (20) calendar days after your receipt of this report.

If we do not hear from you within ten (10) calendar days of your receipt of this report, we will assume you do not want an exit conference. In this case, I will reissue this report to you in final form and you will have thirty (30) calendar days in which to file a formal appeal if you so desire.

Yours very truly,

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Robert M. Kerr

Ms. Brenda L. Hyleman, Director  
Division of Home Health and Nursing Home Services  
Department of Health and Human Services  
Post Office Box 8206  
Columbia, South Carolina 29202-8206

Re: Draft Report - AC# 3-STG-J7 – GranCare South Carolina, Inc., St. George Health Care  
Center, Inc.

Dear Ms. Hyleman:

Please review the adjustments contained in the accompanying draft report. If you have any comments or disagreements with the adjustments and resulting computations, please contact Mr. Jay S. Von Kannel, CPA, within ten (10) calendar days.

Use of the above referenced control number is requested on any subsequent correspondence pertaining to this report.

If you do not have any comments, it will be assumed you are in agreement with the report and only those concerns of the Provider, if any, will be considered prior to the issuance of the final report.

Yours very truly,

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sag

cc: Mr. Jeff Saxon  
Mr. Robert M. Kerr

**GRANCARE SOUTH CAROLINA, INC.,  
ST. GEORGE HEALTH CARE CENTER, INC.**

**ST. GEORGE, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1998  
AC# 3-STG-J7**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## **CONTENTS**

	<b><u>EXHIBIT OR SCHEDULE</u></b>	<b><u>PAGE</u></b>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1998	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1998 THROUGH NOVEMBER 30, 1998	B-1	4
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIODS DECEMBER 1, 1998 THROUGH SEPTEMBER 30, 1999	B-2	5
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1997	C	6
ADJUSTMENT REPORT	1	8
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	11

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 20, 2000

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc., St. George Health Care Center, Inc., for the contract periods beginning October 1, 1998, and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc., St. George Health Care Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GranCare South Carolina, Inc., St. George Health Care Center, Inc., dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
September 20, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**ST. GEORGE HEALTH CARE CENTER, INC.**

Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1998  
AC# 3-STG-J7

	10/01/98- <u>11/30/98</u>	12/01/98- <u>09/30/99</u>
Interim reimbursement rate (1)	\$85.79	\$86.54
Adjusted reimbursement rate	<u>82.19</u>	<u>82.94</u>
Decrease in reimbursement rate	\$ <u><u>3.60</u></u>	\$ <u><u>3.60</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999



**ST. GEORGE HEALTH CARE CENTER, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1998 Through November 30, 1998  
AC# 3-STG-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$30.69	\$46.64	
Dietary		8.18	9.93	
Laundry/Housekeeping/Maintenance		<u>6.55</u>	<u>8.11</u>	
Subtotal	<u>\$4.53</u>	45.42	64.68	\$45.42
Administration & Med. Records	<u>\$ -</u>	<u>14.89</u>	<u>10.90</u>	<u>10.90</u>
Subtotal		60.31	<u>\$75.58</u>	56.32
<u>Costs Not Subject to Standards:</u>				
Utilities		2.82		2.82
Special Services		5.01		5.01
Medical Supplies & Oxygen		3.93		3.93
Taxes and Insurance		1.89		1.89
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$73.96</u>		69.97
Inflation Factor (3.60%)				2.52
Cost of Capital				7.70
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.53
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.78)
Minimum Wage Add-On				<u>.25</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$82.19</u>

**ST. GEORGE HEALTH CARE CENTER, INC.**

Computation of Adjusted Reimbursement Rate

For the Contract Periods December 1, 1998 Through September 30, 1999  
AC# 3-STG-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$30.69	\$46.64	
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Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$73.96</u>		69.97
Inflation Factor (3.60%)				2.52
Cost of Capital				7.70
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.53
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.78)
Minimum Wage and CNA Add-Ons				<u>1.00</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$82.94</u>

**ST. GEORGE HEALTH CARE CENTER, INC.**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 1997  
 AC# 3-STG-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$ 966,276	\$ -	\$ 5,814 (3) 4,210 (8) 62 (9)	\$ 956,190
Dietary	254,840	-	-	254,840
Laundry	44,596	-	-	44,596
Housekeeping	91,384	-	-	91,384
Maintenance	68,110	-	157 (9)	67,953
Administration & Medical Records	460,905	2,893 (3) 1,672 (3)	1,510 (9)	463,960
Utilities	86,709	1,249 (3)	-	87,958
Special Services	155,994	195 (9)	-	156,189
Medical Supplies & Oxygen	215,341	-	6,722 (5) 9,025 (6) 2,776 (7) 74,387 (9)	122,431
Taxes and Insurance	63,398	-	4,489 (4)	58,909
Legal Fees	-	-	-	-
Cost of Capital	242,458	63 (1)	1,810 (2) 739 (10)	239,972
Subtotal	2,650,011	6,072	111,701	2,544,382
Ancillary	117,785	2,776 (7)	-	120,561

**ST. GEORGE HEALTH CARE CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1997  
AC# 3-STG-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
Non-Allowable	1,075,807	1,810 (2) 6,722 (5) 5,574 (6) 4,210 (8) 75,921 (9) 739 (10)	63 (1)	1,170,720
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$3,843,603</u>	<u>\$103,824</u>	<u>\$111,764</u>	<u>\$3,835,663</u>
Total Patient Days	<u>31,156</u>	<u>-</u>	<u>-</u>	<u>31,156</u>
Total Beds	<u>88</u>			

**ST. GEORGE HEALTH CARE CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-STG-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 15,158	
	Other Equity	28,688	
	Cost of Capital	63	
	Accumulated Depreciation		\$ 43,846
	Nonallowable		63
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	1,810	
	Cost of Capital		1,810
	To reverse DH&HS adjustment to record prior owner amortization expense State Plan, Attachment 4.19D		
3	Administration	2,893	
	Medical Records	1,672	
	Utilities	1,249	
	Nursing		5,814
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk State Plan, Attachment 4.19D		
4	Accrued Property Taxes	2,831	
	Retained Earnings	1,658	
	Taxes and Insurance		4,489
	To adjust property taxes and related accrual HIM-15-1, Sections 2302.1 and 2304		
5	Nonallowable	6,722	
	Medical Supplies		6,722
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		

**ST. GEORGE HEALTH CARE CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-STG-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Retained Earnings	3,451	
	Nonallowable	5,574	
	Medical Supplies		9,025
	To disallow expense due to lack of documentation and properly charge expense applicable to the prior period HIM-15-1, Sections 2302.1 and 2304		
7	Ancillary	2,776	
	Medical Supplies		2,776
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
8	Nonallowable	4,210	
	Nursing		4,210
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
9	Special Services	195	
	Nonallowable	75,921	
	Nursing		62
	Maintenance		157
	Administration		1,510
	Medical Supplies		74,387
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

**ST. GEORGE HEALTH CARE CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-STG-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable Cost of Capital	739	739
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$155,610</u>	<u>\$155,610</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**ST. GEORGE HEALTH CARE CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1997  
AC# 3-STG-J7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>88</u>
Deemed Asset Value	2,998,072
Improvements Since 1981	277,150
Accumulated Depreciation at 9/30/97	<u>(797,378)</u>
Deemed Depreciated Value	2,477,844
Market Rate of Return	<u>.067</u>
Total Annual Return	166,016
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	166,016
Depreciation Expense	73,967
Amortization Expense	-
Capital Related Income Offsets	(11)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	239,972
Total Patient Days (Minimum 97% Occupancy)	<u>31,156</u>
Cost of Capital Per Diem	\$ <u><u>7.70</u></u>



**ST. GEORGE HEALTH CARE CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1997  
AC# 3-STG-J7

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u><u>10.56</u></u>
Reimbursable Cost of Capital Per Diem	\$ 7.70
Cost of Capital Per Diem	<u>7.70</u>
Cost of Capital Per Diem Limitation	\$ <u><u>-</u></u>